

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 10827
ORDER NO. R-10019

**APPLICATION OF ENRON OIL & GAS
COMPANY FOR COMPULSORY POOLING
AND AN UNORTHODOX GAS WELL LOCATION,
EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on September 23, 1993 and at 9:00 a.m. on September 27, 1993 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 18th day of November, 1993 the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Enron Oil & Gas Company ("Enron"), seeks an order pooling all mineral interests from the surface to the base of the Morrow formation, underlying the S/2 of Section 35, Township 17 South, Range 30 East, NMPM, Eddy County, New Mexico, forming a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre gas spacing within said vertical extent, which presently includes, but is not necessarily limited to the Undesignated Loco Hills-Atoka Gas Pool and the Undesignated Cedar Lake-Morrow Gas Pool.

(3) Said unit is to be dedicated to applicant's proposed Cedar Lake "35" Federal Com. Well No. 2 to be drilled 990 feet from the South and East lines (Unit P) of said Section 35, which is considered to be an unorthodox gas well location for those intervals developed on 320-acre spacing [General Rules 104.B(1)(a) and C(2)(b)].

(4) The applicant has the right to develop the subject unit and produce the gas underlying the same; at this time however, not all of the working interest owners in the proposed 320-acre gas spacing and proration unit have agreed to pool their interests.

(5) ARCO Oil & Gas Company ("ARCO"), an offset interest owner in the N/2 SW/4 of Section 36, Township 17 South, Range 30 East, NMPM, Eddy County, New Mexico appeared at the hearing, but did not oppose the application.

(6) Meridian Oil Inc., an interest owner in the subject spacing and proration unit, also appeared at the hearing in support of the application.

(7) The parties at the hearing presented an agreement between and

among the interest owners in the subject proration and spacing unit and ARCO under which applicant accepted a production limitation factor of 70 percent (30% penalty factor) on the subject well to be applied against the well's ability to produce as determined by deliverability tests to be conducted on a bi-annual basis. This agreement, which was submitted in evidence as applicant's Exhibit No. "4", is for and on account of the well's proposed unorthodox location.

(8) The geologic evidence presented by Enron in this case indicates the gas producing interval of the Morrow formation in this area to be a "braided stream channel deposit" of limited extent and that a well at the proposed unorthodox location should penetrate a thicker portion of the Morrow sand than a well drilled at a standard gas well location thereon, thereby increasing the likelihood of intersecting a commercial grade gas bearing zone within the Morrow formation.

(9) Through testimony presented at the hearing, the applicant intends to utilize the subject well as an offset to a previously approved unorthodox gas well location (Division Administrative Order NSL-3215, dated January 6, 1993) to the south in order to protect the S/2 of said Section 35 from drainage being incurred by the Mewbourne Oil Company Cedar Breaks "2" State Well No. 2, located 990 feet from the North and East lines (Unit A) of Section 2, Township 18 South, Range 30 East, NMPM, Eddy County, New Mexico.

(10) The proposed penalty on the Morrow gas production expected from the subject well appears to be fair and serves to protect correlative rights.

(11) All geologic testimony presented at the hearing was limited to the Undesignated Cedar Lake-Morrow Gas Pool and no geologic support was offered with respect to other formations and/or pools spaced on 320 acres.

(12) Division General Rule 104.F provides for an administrative review process for wells recompleated up-hole at a previously approved unorthodox location; said procedure would allow Enron in this instance to obtain approval in any effected shallower zone with relative ease.

(13) Enron's request for an unorthodox gas well location in all possible zones spaced on 320 acres is somewhat premature and unwarranted at this time. Approval of the unorthodox location portion of this application should therefore be limited only to the Undesignated Cedar Lake-Morrow Gas Pool.

(14) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of gas production in any pool resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(15) The applicant should be designated the operator of the subject well and unit.

(16) Any non-consenting working interest owner should be afforded

the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(17) The same geological and technical evidence to support the subject unorthodox location also indicates that a reduction in the risk involved in the drilling of the proposed well is in order, therefore the maximum risk penalty factor of 200 percent as requested is not justified in this instance and should be reduced by a factor of 30% as reflected in the agreed production penalty factor. Thus, any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of reasonable well costs plus an additional 140 percent thereof as a reasonable charge for the risk involved in the drilling of this well.

(18) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(19) Following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(20) At the time of the hearing, the applicant proposed that the reasonable monthly fixed charges for supervision while drilling and producing said well should be initially set at \$5,300.00 and \$530.00, respectively, and that any such overhead charges included in this order contain provisions for an annual adjustment based on accepted industry practices.

(21) \$5300.00 per month while drilling and \$530.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(22) All proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(23) Upon failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before March 1, 1994, the order pooling said unit should become null and void and of no further effect whatsoever.

(24) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, the forced pooling provisions of this order should thereafter be of no further effect.

(25) The operator of the well and unit should notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) The application of Enron Oil & Gas Company ("Enron") to drill its Cedar Lake "35" Federal Com. Well No. 2 at an unorthodox gas well location 990 feet from the South and East lines (Unit P) of Section 35, Township 17 South, Range 30 East, NMPM, to test the Undesignated Cedar Lake-Morrow Gas Pool, Eddy County, New Mexico is hereby approved. This unorthodox well location approval shall be restricted at this time to the Morrow interval only. Any other intervals to be included at a later date may be authorized under Rule 104.F of the Division's General Rules and Regulations.

(2) All mineral interests, whatever they may be, from the surface to the base of the Morrow formation, underlying the S/2 of said Section 35 are hereby pooled to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre gas spacing within said vertical extent, which presently includes, but is not necessarily limited to the Undesignated Loco Hills-Atoka Gas Pool and the Undesignated Cedar Lake-Morrow Gas Pool.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of its above-described Cedar Lake "35" Federal Com. Well No. 2 on or before March 1, 1994, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before March 1, 1994, Decretory Paragraph No. (2) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER THAT, should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Decretory Paragraph No. (2) of this order should not be rescinded.

(3) Enron Oil & Gas Company is hereby designated the operator of the subject well and unit.

(4) After the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(5) Within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and any such owner who pays his share of estimated well costs as provided

above shall remain liable for operating costs but shall not be liable for risk charges.

(6) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is an objection to actual well costs within said 45 day period the Division will determine reasonable well costs after public notice and hearing.

(7) Within 60 working days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(8) The operator is hereby authorized to withhold the following costs and charges from production.

- (a) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him; and
- (b) As a charge for the risk involved in the drilling of the well, 140 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(9) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(10) \$5300.00 per month while drilling and \$530.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(11) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(12) Any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of

production, and no costs or charges shall be withheld from production attributable to royalty interests.

(13) All proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(14) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, the forced pooling provisions of this order shall thereafter be of no further effect.

(15) The operator of the subject well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

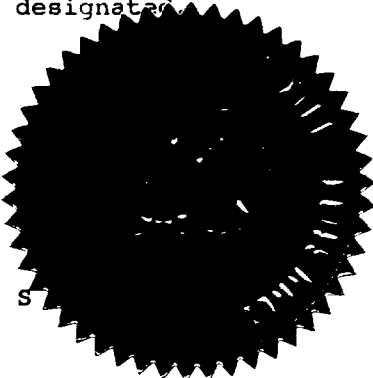
IT IS FURTHER ORDERED THAT:

(16) The applicant's Cedar Lake "35" Federal Com Well No. 2 is hereby assigned a production limitation factor of 70 percent (30 percent penalty factor) from the Undesignated Cedar Lake-Morrow Gas Pool. This production limitation factor shall be applied against the well's ability to produce as determined by deliverability tests conducted on the well on a bi-annual basis. The deliverability tests shall be conducted after notice has been provided to the supervisor of the Artesia district office of the Division and to ARCO Oil and Gas Company, and a reasonable opportunity is provided to each to witness such test.

(17) The production limitation agreement submitted by the applicant to the Division at the time of the hearing as Exhibit No. "4" is hereby incorporated by reference into this order.

(18) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

William J. Lemay
WILLIAM J. LEMAY
Director